

**REPORT OF THE AUDIT OF THE
MARSHALL COUNTY
CLERK**

**For The Year Ended
December 31, 2002**



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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Debra Eucker, Commissioner, Department of Law, Revenue Cabinet
Honorable Kenneth Michael Miller, Marshall County Judge/Executive
Honorable Dan Duke, Marshall County Clerk
Members of the Marshall County Fiscal Court

The enclosed report prepared by Kapp & Company, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the County Clerk of Marshall County, Kentucky, for the year ended December 31, 2002.

We engaged Kapp & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Kapp & Company, PLLC, evaluated the Marshall County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure





Kapp & Company, PLLC

Certified Public Accountants &
Business Advisors

**REPORT OF THE AUDIT OF THE
MARSHALL COUNTY
CLERK**

**For The Year Ended
December 31, 2002**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MARSHALL COUNTY CLERK

**For The Year Ended
December 31, 2002**

Kapp & Company, PLLC, has completed the Marshall County Clerk's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$16,295 from the prior calendar year, resulting in excess fees of \$224,424 as of December 31, 2002. Revenues increased by \$325,371 from the prior year and disbursements increased by \$341,666.

Report Comments:

- Delinquent Tax Refunds
- Lacks Adequate Segregation Of Duties

Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds.

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Kapp & Company, PLLC

Certified Public Accountants &
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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Marshall County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.

To the People of Kentucky
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In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2003, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- Delinquent Tax Refunds
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -
November 12, 2003

MARSHALL COUNTY
DAN DUKE, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

State Grants	\$	6,074
State Fees For Services		13,690
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$	886,617
Usage Tax		3,393,073
Tangible Personal Property Tax		2,335,997
Lien Fees		7,719
Licenses-		
Fish and Game		5,308
Marriage		9,039
Occupational		50
Deed Transfer Tax		77,209
Delinquent Tax		462,000
		7,177,012
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	\$	22,211
Real Estate Mortgages		80,390
Chattel Mortgages and Financing Statements		92,297
Powers of Attorney		2,333
All Other Recordings		33,216
Charges for Other Services-		
Bad Check Fees		1,402
Copywork		5,262
Postage		3,802
Candidate Filing Fees		2,420
		243,333
Other:		
Prior Year Bad Debt	\$	2,479
Customer Overpayment		23,348
Miscellaneous		1,670
		27,497
Interest Earned		3,197
Total Receipts	\$	7,470,803

The accompanying notes are an integral part of this financial statement.

MARSHALL COUNTY
DAN DUKE, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
For The Year Ended December 31, 2002
(Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	694,624	
Usage Tax		3,291,175	
Tangible Personal Property Tax		884,344	
Licenses, Taxes, and Fees-			
Fish and Game		5,051	
Delinquent Tax		95,517	
Legal Process Tax		29,231	
Candidate Filing Fees		1,380	
Unused Grant Money Repaid		778	\$ 5,002,100

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	227,000	
Delinquent Tax		39,501	
Deed Transfer Tax		73,349	339,850

Payments to Other Districts:

Tangible Personal Property Tax	\$	1,131,228	
Delinquent Tax		204,479	1,335,707

Payments to Sheriff

3,122

Payments to County Attorney

64,980

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	242,195
Part-Time Salaries		50,105
Overtime		3,697

Contracted Services-

Postage, Copier and Indexing		25,891
Microfilming		5,286
Printing and Binding		4,787

Materials and Supplies-

Office Supplies		14,270
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Other Charges-

Conventions and Travel		3,309
Dues		1,000
Postage		11,285
Voting Machine Storage		1,200
Bond, Notary Commission, and Uniforms		1,206
Customer Overpayments		16,613

The accompanying notes are an integral part of this financial statement.

MARSHALL COUNTY
DAN DUKE, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
For The Year Ended December 31, 2002
(Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay (Continued):

Other Charges- (Continued)			
Refunds	\$	26,315	
Bad Debt		743	
Interest		56	
Bank Fees		17	
Capital Outlay-			
Office Equipment		19,374	\$ 427,349
		<u>19,374</u>	<u>\$ 427,349</u>
Total Disbursements			<u>\$ 7,173,108</u>
Net Receipts			\$ 297,695
Less: Statutory Maximum	\$	66,706	
Training Incentive Benefit		2,965	69,671
		<u>2,965</u>	<u>69,671</u>
Excess Fees			\$ 228,024
Less: Expense Allowance			<u>3,600</u>
Excess Fees Due County for 2002			\$ 224,424
Payment to County Treasurer - February 10, 2003			<u>244,191</u>
Refund Due County Clerk			<u>\$ (19,767)</u>

The accompanying notes are an integral part of this financial statement.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months and 6.34 percent for the last six months of the year.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2002
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2002, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the County Clerk's agent in the County Clerk's name, or provided surety bond which named the County Clerk as beneficiary/obligee on the bond.

Note 4. Library and Archives Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$6,074 in 2001. Interest of \$56 was earned during the year. Funds totaling \$5,326 were expended during calendar year 2002. The unexpended grant balance is \$804 as of December 31, 2002.

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COMMENTS AND RECOMMENDATIONS

MARSHALL COUNTY
DAN DUKE, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2002

STATE LAWS AND REGULATIONS:

Delinquent Tax Refunds

During the months of May, June, and July of 2002, the delinquent tax software system over charged various penalties and interest on tax bills. Refunds totaling \$19,767 are due back to the taxpayers. We recommend that the correct amount of each tax bill be determined and compared to the amount paid in order to determine the refund due. We also recommend that the County Clerk send a letter to those taxpayers notifying them of the overpayment and request that they send proof of payment to the County Clerk's office before a check is issued.

County Clerk's Response:

None.

INTERNAL CONTROL:

Lacks Adequate Segregation Of Duties

Due to the entity's diversity of official operations, small size, and budget restrictions, the County Clerk has limited options for establishing an adequate segregation of duties. We recommend the County Clerk reconcile monthly reports to source documents and to the receipts and disbursements ledgers.

County Clerk's Response:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



To the People of Kentucky
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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Marshall County Clerk for the year ended December 31, 2002, and have issued our report thereon dated November 12, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Marshall County Clerk's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying comments and recommendations.

- Delinquent Tax Refunds

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Marshall County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script that reads "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -
November 12, 2003

